



UNITED STATES
DEPARTMENT OF
AGRICULTURE

RURAL
DEVELOPMENT

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Rural Development Texas AN No. 554 (3550)

SUBJECT: Section 502 Direct Leveraged Loans

August 31, 2001

TO: All Offices
USDA Rural Development, Texas

PURPOSE/INTENDED OUTCOME: The purpose of this Texas Administrative Notice (AN) is to clarify the processing responsibilities and actions to be taken by USDA Rural Development employees on Section 502 Direct Leveraged Loans, which are described in HB-1-3550, "Field Office Handbook", Chapter 10.

COMPARISON WITH PREVIOUS AN: This AN replaces USDA Rural Development Texas AN No. 527, which expired on December 31, 2000.

IMPLEMENTATION RESPONSIBILITIES: The actions listed on Exhibit A will be taken immediately by local office employees upon receipt of a Section 502 Direct Leveraged Loan application. Exhibit B will be used by employees in reviewing and processing leveraged loans. All borrowers receiving leveraged loans will sign Exhibit C.

A leveraged loan is a Section 502 Direct loan that is supplemented by a loan or grant from another funding source that is provided at the same time the agency loan is closed. This additional conventional funding source may be a private lender that provides home financing at conventional market rates, a state or local government agency, or a nonprofit organization that provides subsidized loans or grants.

To assist as many applicants as possible, USDA Rural Development will leverage as much of the total acquisition cost on each loan as possible. This means that borrowers will be required to leverage their loans, in accordance with their ability to pay, up to a maximum of 50 percent. Leveraged lenders and applicants are required to maximize the lender's portion of the total loan. HB-1-3550, Section 10.3A states that the State Director may approve leveraging arrangements that do not meet the 20 percent market rate criteria, when it is in the best interest of the Government. In order to maximize Texas USDA Rural Development allocations of Section 502 funds, it is determined that leveraging arrangements, which fall between 10 and 50 percent are in the best interest of the Government. Local offices are authorized to underwrite and approve Section 502 leveraged loans that meet this criteria.

EXPIRATION DATE: July 31, 2002

FILING INSTRUCTIONS: HB 3550-1
State Supplements
Rural Development Texas AN No. 554 (3550)

The hierarchy of the determination of the applicant's ability to obtain credit from other sources for the purchase of a suitable dwelling includes Guaranteed Rural Housing (GRH) loans. In other words, applicants are first considered for GRH loans, then Section 502 Direct Leveraged loans, and then Section 502 Direct loans with no leveraging. If an applicant appears to be qualified for a GRH loan for an amount that appears sufficient to enable them to purchase an appropriate home in the area, they will be reviewed for a GRH loan for that amount. If they qualify for a GRH loan, they will be ineligible for a leveraged loan.

If the applicant cannot qualify for a GRH loan for an appropriately priced home in the area, a leveraged loan application may be processed. This means that applicants cannot "move up" to a more expensive home by applying for and obtaining a subsidized Section 502 leveraged loan instead of a GRH loan.

If an applicant is prequalified with at least a 10 percent leveraged loan, and the resulting maximum loan is sufficient to enable an applicant to purchase an appropriate home in the market area, the loan originator must notify the applicant that they will be required to contact private lenders to attempt to obtain leveraged financing. A list of leveraged lenders is available at www.rurdev.usda.gov/tx/sfh.htm.

If the Eligibility Summary shows that the applicant would not be able to show repayment with a leveraged loan no matter what the leveraging percentage, the Eligibility Summary will be printed and included in the file to document why the loan was not leveraged.

Loans provided by a conventional funding source will be secured by a first lien mortgage and USDA Rural Development loans will be secured by a second lien mortgage. Liens related to other subsidized funds provided in the form of grants and nonamortizing loans, such as deferred payment or forgivable loans, must be subordinate to the Agency's loan. Either the lender or USDA Rural Development may originate applications for leveraged loans. If a lender originates an application, the lender may charge reasonable and customary fees based on the combined loan amount.

RD Instruction 1940-L requires the State Director to maintain a reserve from the Section 502 Direct loan allocation to fund leveraged loans. This means that funds will be available for funding for any leveraged application from the State Office reserve. In addition, HB-1 3550, Chapter 3 states that applications, which bring in outside resources will be given priority in processing and are classified in priority group 4. Because leveraged loans are included in priority group 4, any applications will be processed immediately. These applications will be processed separately from applications that are to be processed with each quarterly Section 502 direct allocation.

Due to the emphasis placed on the processing of leveraged loans, local offices will contact local lenders to have them participate in the program. Local offices will utilize HB-1 3550, Chapter 10, Attachment 10-C as an information source to be provided to the lender(s).

Please contact the Single Family Housing Section if you have any questions.

/s/ Bryan Daniel

BRYAN DANIEL
State Director

Attachments

**REQUIRED DOCUMENTATION TO PROCESS A LEVERAGED
LOAN**

This Documentation May Be Accepted From The Lender

- _____ Form FmHA 410-4 or Fannie Mae 1003 with Additional Information Required for FmHA Assistance (Pages 7 & 8 of Form FmHA 410-4)
- _____ Residential Mortgage Credit Report (RMCR) (obtained by the lender)
- _____ Verifications of income for every adult member of the household (obtained by the lender)
- _____ Verifications of Deposit (obtained by the lender)
- _____ Landlord verification (if applicable) (obtained by the lender)
- _____ If the applicant has selected a property, copy of sales contract and/or certified plans and specifications and all other development items required in FmHA Instruction 1924-A (obtained by the lender)
- _____ Appraisal which has been obtained by the lender in accordance with Rural Development Texas AN No. 544 (3550) dated April 9, 2001.

**PROCESSING GUIDELINE FOR LEVERAGED LOANS
ORIGINATED BY THE LENDER**

1. Review the origination package to ensure that all items required for a complete application and items listed in Exhibit A are included.
2. If the lender has underwritten the loan, check to see if the applicant has the required repayment ability for the proposed loan amounts. The application should be prequalified in UniFi and the loan should be input (boarded) in UniFi. To determine the maximum amount of leveraged lender funds the applicant can qualify for, the total amount of funds needed to purchase the dwelling must be entered in the “Req Amt” field (in the adjusted terms column) in the Section 502 Worksheet in UniFi. The mortgage lender’s name should be entered on line 3 of the Leveraged Loan/Maximum Loan Amount Worksheet screen in UniFi with at least 20 percent of the loan. The percentage will be increased or decreased as indicated by the repayment ability of the applicant.

In addition, the following steps must be followed:

- a. In the Prequalification stage, on the “Section 502 Worksheet” the total of the RHS loan and the lender’s loan should be entered on the Req Amt field in the Adjusted Terms column.
- b. In APPLICATION stage, On the Registration screen you will show:
 - Only the amount that our Agency is loaning in the loan amount field.
 - The total sales price of the property (for non-construction loans).
 - The total appraisal.
 - If RHS will be in a subordinate lien position mark block “Loan is a Second Mortgage”.
 - They do not have rescission rights.
 - The Priority code is 4 for a leveraged loan. (May change at a later date).
- c. On the **New Application Additional Setup** screen always show the Security Code as “**Leveraged**”. **This is always the case no matter what the lien position.**

- d. **Good Faith Estimate screen.** We still charge the \$95.00 tax service fee on leveraged loans. We still require Title Insurance on our loan. **If the participating lender will escrow the loan do not complete the GFE Escrow Screen or the Reserves Deposited with Lender screen.**
 - e. On the **Details of Transaction screen** if RHS will be in a subordinate lien position, show the Leveraged Loan Amount on the **Other Credits screen**. If RHS will be in first lien position, show the Leveraged Loan amount in the Subordinate Financing field (line J).
 - f. Continue to complete all other screens to process the application.
 - g. **In FASTeller:** Be sure to use the Plan Type code (TYP/PRTCPN) “1”-New Participation code on the Leveraged Loan Payment Assistance (RHCD/AGREEMENT/LOANS) screen.
3. If the package includes a sales contract for a specified property, the local office will make a site visit as required by HB-1-3550 7.18. If the property is acceptable and the lender did not submit an appraisal, the local office may order the appraisal. If the lender provides an appraisal, the local office will refer to Rural Development Texas AN No. 524 (3550) dated January 5, 2000. If the applicant has not selected a property, the local office will issue a Certificate of Eligibility to the applicant.
4. A State Certified Inspector must inspect the dwelling in accordance with HB-1-3550 (5.7). The inspector may be contracted by the applicant or by the Lender. It is the responsibility of the Lender and Rural Development to review the findings of the inspection. Any defects or repairs noted in the inspection affecting the health, and safety of the residents or the security value of the property needs to be addressed in the property appraisal. There is no requirement that cosmetic repairs or deficiencies be corrected on existing houses. An automated flood certification must be ordered even if the leveraged lender provides one.
5. After receipt of the appraisal and satisfactory review of the appraisal, the local office will schedule and hold the applicant orientation using form RD 3550-23 “Application Orientation Guide”. If you are sure of the amount to be obligated you may obligate a leveraged loan before the application orientation is held. As with any Section 502 Direct loan, the Form RD 3550-23 will note the applicant’s decision whether to finance or pay the allowable excess costs.

6. The local office will make any necessary changes to the loan information in UniFi and upload. This will include the indication of the approval of the loan in Stage Updating. After the successful upload, the local office will request that the loan be obligated. A copy of the customer/property screen must be provided. After the loan has been obligated, the local office will provide the applicant with RD form 3550-7 Mortgage Loan Commitment” After the applicant has signed RD Form 3550-7, the local office will provide the lender with a copy of the signed form.
7. Complete the In-1 Closing Select or Add Agent Screen in FASTeller and Fax the Pre-Audit Document FAX Checklist to the SFH Section in the State Office along with all required forms.
8. **Leveraged Loans cannot be closed without the execution of Form RD TX 1927-8 “Agreement with Prior Lienholder.** The loan closing will be completed in accordance with FmHA instructions 1927-B and the supplementing RD Texas Instruction 1927-B. The loan closing agent will prepare and close the loan as they would any other Section 502 loan with the addition of the completed Form RD TX 1927-8 “Agreement with Prior Lienholder”. Both the leveraged lender and Rural Development will execute this agreement. An employee with loan approval authority will execute the form prior to providing the loan closing instructions and documents to the closing agent. The closing agent will complete the recording information and file the agreement.
9. Loan Closing instructions will include the requirement that the closing agent will provide the originating office and CSC with copies of all of the lender’s security instruments (Promissory Note and Deed of Trust).

**STATEMENT TO BE SIGNED BY THE LEVERAGED APPLICANT(S)
AT THE TIME OF APPLICATION**

I (We) acknowledge that USDA Rural Development's review and approval of this loan application is necessary and any approval of the loan is subject to the availability of Rural Development funds. I (We) also acknowledge that I (We) accept the terms, conditions, and fees of the conventional lender in connection with the proposed leveraged loan.

Date

Applicant

Co-Applicant